



MPOFANA MUNICIPALITY  
Annual Financial Statements  
for the year ended 30 June 2016

# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## General Information

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<b>Nature of business and principal activities</b>	Providing Municipal Services
<b>Members of Council</b> Mayor	
<b>Registered office</b>	10 Claughton Terrace Mooi River 3300
<b>Municipal Contact details</b>	033 263 1221/7700 Mooi River 3300
<b>Postal address</b>	P O Box 47 Mooi River 3300
<b>Bankers</b>	First National Bank
<b>Auditors</b>	The Auditor General of South Africa

# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Index

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The reports and statements set out below comprise the Annual Financial Statements presented to the provincial legislature:

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### Abbreviations

EPWP	Expanded Public Works Programme
GRAP	Generally Recognised Accounting Practice
INEP	Integrated National Electrification Program
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MSIG	Municipal Systems Improvement Grant
SARS	South African Revenue Services
VAT	Value Added Tax

# **MPOFANA MUNICIPALITY**

Annual Financial Statements for the year ended 30 June 2016

## **Accounting Officer's Responsibilities and Approval**

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The Accounting Officer is required by the Public Finance Management Act (Act 1 of 1999), to maintain adequate accounting records and is responsible for the content and integrity of the Annual Financial Statements and related financial information included in this report. It is the responsibility of the Accounting Officer to ensure that the Annual Financial Statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the Annual Financial Statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The Annual Financial Statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Accounting Officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the Accounting Officer to meet these responsibilities, the Accounting Officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Accounting Officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the Annual Financial Statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the income from services, rates and grants for continued funding of operations. The Annual Financial Statements are prepared on the basis that the municipality is a going concern and that the council has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The Auditor General (SA) is responsible for independently reviewing and reporting on the municipality's Annual Financial Statements. The Annual Financial Statements have been examined by the municipality's external auditors.

The Annual Financial Statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The Annual Financial Statements set out on page 5 to 48, which have been prepared on the going concern basis, were approved by the Council on 31 August 2016 and were signed on its behalf by

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**Accounting Officer  
Designation**

# **MPOFANA MUNICIPALITY**

Annual Financial Statements for the year ended 30 June 2016

## **Approval of Annual Financial Statements**

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I am responsible for the preparation of these Annual Financial Statements, which are set out on pages 5 to 48, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 31 of these Annual Financial Statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The Accounting Officer is responsible for the presentation and fair presentation of these Annual Financial Statements in accordance with Generally Recognised Accounting Practice (GRAP) in a manner required by local government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

It is the responsibility of the Accounting Officer to ensure that the Annual Financial Statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended.

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Municipal Manager:  
Max Moyo  
31 August, 2015

# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Statement of Financial Position as at 30 June 2016

	Note(s)	2016 R	2015 Restated* R
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	2	273 815	76 130
Receivables from non exchange transactions		-	-
Other receivables	4&50	5 853 069	6 350 546
Loans and receivables	5	399 638	(90 537 927)
Receivables from exchange transactions	6	31 515 127	28 639 458
Financial assets - investments	7	2 916 606	9 487 572
Cash and cash equivalents	8	2 158 882	2 687 362
		<b>43 117 137</b>	<b>(43 296 859)</b>
<b>Non-Current Assets</b>			
Investment property	9	5 335 395	11 684 545
Property, plant and equipment	10	51 788 682	61 728 887
Intangible assets	11	83 721	85 461
Heritage assets		98 850	197 700
		<b>57 306 648</b>	<b>73 696 593</b>
<b>Total Assets</b>		<b>100 423 785</b>	<b>30 399 734</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Finance lease obligation	12	512 087	410 803
Payables from exchange transactions	13	23 605 010	11 126 957
VAT payable		908 191	2 251 899
Consumer deposits	14	264 608	247 766
Employee benefit obligation	15	358 000	448 000
Unspent conditional grants and receipts	16	20 224 394	19 229 810
Provisions	17	7 370 846	7 370 846
Short term portion of long term liabilities	18	70 202	137 426
		<b>53 313 338</b>	<b>41 223 507</b>
<b>Non-Current Liabilities</b>			
Finance lease obligation	12	242 410	39 315
Employee benefit obligation	15	10 048 000	10 775 000
Annuity loan	18	(94 494)	-
		<b>10 195 916</b>	<b>10 814 315</b>
<b>Total Liabilities</b>		<b>63 509 254</b>	<b>52 037 822</b>
<b>Net Assets</b>		<b>36 914 531</b>	<b>(21 638 088)</b>
<b>Net Assets</b>			
Accumulated surplus		36 914 531	(21 638 088)

\* See Note 40

# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Statement of Financial Performance

	Note(s)	2016 R	2015 Restated* R
<b>Revenue</b>			
Service charges	20	49 791 792	45 036 751
Rental of facilities and equipment	21	446 719	533 684
Licences and permits		1 484 236	2 521 412
Fair value adjustment		(70 854)	213 545
Other income	22	1 864 642	1 604 703
Interest received		2 550 490	2 680 850
Reversal of impairment	25	10 646 915	10 111 519
Property rates - penalties imposed		2 406 165	2 294 937
Donations received		-	835 418
Government grants & subsidies	26	56 727 417	44 264 627
Fines, Penalties and Forfeits		410 650	6 449 569
<b>Total revenue</b>		<b>126 258 172</b>	<b>116 547 015</b>
<b>Expenditure</b>			
Employee related costs	28	(30 596 051)	(28 939 247)
Remuneration of councillors	29	(2 490 585)	(1 547 162)
Depreciation and amortisation	30	(6 613 584)	(5 518 529)
Impairment loss/ Reversal of impairments	27	(81 554)	-
Finance costs	24	(139 598)	(91 385 386)
Debt Impairment	31	(7 954 761)	(4 432 303)
Repairs and maintenance		(3 945 657)	(2 406 555)
Bulk purchases	32	(60 072 247)	(41 491 713)
Contracted services	33	(13 782 201)	(3 818 394)
Bank charges		(138 580)	(149 434)
General Expenses	34	(29 991 518)	(15 188 157)
<b>Total expenditure</b>		<b>(155 806 336)</b>	<b>(194 876 880)</b>
<b>Operating deficit</b>		<b>(29 548 164)</b>	<b>(78 329 865)</b>
<b>Deficit for the year</b>		<b>(29 548 164)</b>	<b>(78 329 865)</b>

\* See Note 40

# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Statement of Changes in Net Assets

	Revaluation reserve R	Accumulated surplus R	Total net assets R
<b>Balance at 01 July 2014</b>	<b>8 581 605</b>	<b>56 691 777</b>	<b>65 273 382</b>
Changes in net assets			
Surplus for the year	-	(78 329 865)	(78 329 865)
Reversal	(8 581 605)	-	(8 581 605)
Total changes	(8 581 605)	(78 329 865)	(86 911 470)
<b>Restated* Balance at 01 July 2015</b>	<b>-</b>	<b>50 885 541</b>	<b>50 885 541</b>
Changes in net assets			
Fair value gains, net of tax: Land and buildings	-	15 577 154	15 577 154
Net income (losses) recognised directly in net assets	-	15 577 154	15 577 154
Surplus for the year	-	(29 548 164)	(29 548 164)
Total recognised income and expenses for the year	-	(13 971 010)	(13 971 010)
Total changes	-	(13 971 010)	(13 971 010)
<b>Balance at 30 June 2016</b>	<b>-</b>	<b>36 914 531</b>	<b>36 914 531</b>

\* See Note 40



# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Cash Flow Statement

	Note(s)	2016 R	2015 Restated* R
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		58 271 977	57 306 464
Grants		56 727 417	139 126 547
Interest income		2 550 490	2 680 850
Licences and permits		1 484 236	2 521 412
		<u>119 034 120</u>	<u>201 635 273</u>
<b>Payments</b>			
Employee costs		(33 086 636)	(29 610 606)
Suppliers		(117 550 570)	(68 508 204)
Finance costs		(71)	(91 153 206)
Other cash item		104 477 533	(816 612)
		<u>(46 159 744)</u>	<u>(190 088 628)</u>
<b>Net cash flows from operating activities</b>	37	<b><u>72 874 376</u></b>	<b><u>11 546 645</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	10	(6 370 060)	(12 757 211)
Proceeds from sale of property, plant and equipment	10	77 814	96 150
Purchases of heritage assets		-	(98 850)
Proceeds from sale of financial assets - investments		6 570 966	2 360 633
Purchase of loans and receivables		(90 937 565)	-
Proceeds from sale of loans and receivables		-	47 744
Other cash item		21 965 944	102 422
<b>Net cash flows from investing activities</b>		<b><u>(68 692 901)</u></b>	<b><u>(10 249 112)</u></b>
<b>Cash flows from financing activities</b>			
Movement in annuity loan		(161 718)	46 446
Finance lease payments		(4 548 237)	(1 001 129)
<b>Net cash flows from financing activities</b>		<b><u>(4 709 955)</u></b>	<b><u>(954 683)</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b><u>(528 480)</u></b>	<b><u>342 850</u></b>
Cash and cash equivalents at the beginning of the year		2 687 362	2 344 512
<b>Cash and cash equivalents at the end of the year</b>	8	<b><u>2 158 882</u></b>	<b><u>2 687 362</u></b>

\* See Note 40

# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual R	Reference
	R	R	R	R	R	
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	57 150 000	(5 372 634)	<b>51 777 366</b>	49 791 792	<b>(1 985 574)</b>	
Rental of facilities and equipment	219 000	435 342	<b>654 342</b>	446 719	<b>(207 623)</b>	
Licences and permits	3 211 000	(1 793 000)	<b>1 418 000</b>	1 484 236	<b>66 236</b>	
Fair value adjustment	-	-	-	(70 854)	<b>(70 854)</b>	
Other income	684 000	8 230 000	<b>8 914 000</b>	1 864 642	<b>(7 049 358)</b>	
Interest earned - outstanding debtors	2 349 000	(265 000)	<b>2 084 000</b>	-	<b>(2 084 000)</b>	
Service charges - refuse revenue	3 222 000	-	<b>3 222 000</b>	-	<b>(3 222 000)</b>	
Interest received - investment	524 000	(100 000)	<b>424 000</b>	2 550 490	<b>2 126 490</b>	
<b>Total revenue from exchange transactions</b>	<b>67 359 000</b>	<b>1 134 708</b>	<b>68 493 708</b>	<b>56 067 025</b>	<b>(12 426 683)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	11 929 000	(1 451 000)	<b>10 478 000</b>	10 646 915	<b>168 915</b>	
Property rates - penalties imposed	2 766 000	(600 000)	<b>2 166 000</b>	2 406 165	<b>240 165</b>	
<b>Transfer revenue</b>						
Government grants & subsidies	38 427 000	-	<b>38 427 000</b>	56 727 417	<b>18 300 417</b>	
Fines, Penalties and Forfeits	336 000	6 909 981	<b>7 245 981</b>	410 650	<b>(6 835 331)</b>	
<b>Total revenue from non-exchange transactions</b>	<b>53 458 000</b>	<b>4 858 981</b>	<b>58 316 981</b>	<b>70 191 147</b>	<b>11 874 166</b>	
<b>Total revenue</b>	<b>120 817 000</b>	<b>5 993 689</b>	<b>126 810 689</b>	<b>126 258 172</b>	<b>(552 517)</b>	
<b>Expenditure</b>						
Personnel	(29 166 000)	(330 000)	<b>(29 496 000)</b>	(30 596 051)	<b>(1 100 051)</b>	
Remuneration of councillors	(2 261 000)	(273 000)	<b>(2 534 000)</b>	(2 490 585)	<b>43 415</b>	
Depreciation and amortisation	(5 370 000)	-	<b>(5 370 000)</b>	(6 613 584)	<b>(1 243 584)</b>	
Impairment loss/ Reversal of impairments	-	-	-	(81 554)	<b>(81 554)</b>	
Finance costs	(635 000)	-	<b>(635 000)</b>	(139 598)	<b>495 402</b>	
Bad debts written off	(10 106 000)	-	<b>(10 106 000)</b>	(7 954 761)	<b>2 151 239</b>	
Repairs and maintenance	-	-	-	(3 945 657)	<b>(3 945 657)</b>	
Bulk purchases	(55 735 000)	-	<b>(55 735 000)</b>	(60 072 247)	<b>(4 337 247)</b>	
Contracted Services	(6 659 000)	1 730 000	<b>(4 929 000)</b>	(13 782 201)	<b>(8 853 201)</b>	
Bank charges	-	-	-	(138 580)	<b>(138 580)</b>	
General Expenses	(11 481 000)	(5 256 000)	<b>(16 737 000)</b>	(29 991 518)	<b>(13 254 518)</b>	
<b>Total expenditure</b>	<b>(121 413 000)</b>	<b>(4 129 000)</b>	<b>(125 542 000)</b>	<b>(155 806 336)</b>	<b>(30 264 336)</b>	
<b>Deficit before taxation</b>	<b>(596 000)</b>	<b>1 864 689</b>	<b>1 268 689</b>	<b>(29 548 164)</b>	<b>(30 816 853)</b>	
<b>Deficit for the year from continuing operations</b>	<b>(596 000)</b>	<b>1 864 689</b>	<b>1 268 689</b>	<b>(29 548 164)</b>	<b>(30 816 853)</b>	
Transfers recognised - capital	12 295 000	4 000 000	<b>16 295 000</b>	-	<b>(16 295 000)</b>	

# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual R	Reference
	R	R	R	R		
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>11 699 000</b>	<b>5 864 689</b>	<b>17 563 689</b>	<b>(29 548 164)</b>	<b>(47 111 853)</b>	
<b>Reconciliation</b>						

# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual R	Reference
	R	R	R	R	R	
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	-	76 130	76 130	273 815	197 685	
Other receivables	497 000	-	497 000	5 853 069	5 356 069	
Consumer debtors	29 000 000	-	29 000 000	31 515 127	2 515 127	
Financial assets - investments	5 882 000	(4 529 000)	1 353 000	2 916 606	1 563 606	
Loans and receivables	500 000	(100 362)	399 638	399 638	-	
Cash and cash equivalents	1 000 000	(1 000 000)	-	2 158 882	2 158 882	
	<b>36 879 000</b>	<b>(5 553 232)</b>	<b>31 325 768</b>	<b>43 117 137</b>	<b>11 791 369</b>	
<b>Non-Current Assets</b>						
Investment property	5 335 000	-	5 335 000	5 335 395	395	
Property, plant and equipment	58 553 000	14 650 000	73 203 000	51 788 682	(21 414 318)	
Intangible assets	85 000	-	85 000	83 721	(1 279)	
Heritage assets	-	-	-	98 850	98 850	
Other non-current assets	99 000	-	99 000	-	(99 000)	
	<b>64 072 000</b>	<b>14 650 000</b>	<b>78 722 000</b>	<b>57 306 648</b>	<b>(21 415 352)</b>	
<b>Total Assets</b>	<b>100 951 000</b>	<b>9 096 768</b>	<b>110 047 768</b>	<b>100 423 785</b>	<b>(9 623 983)</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Finance lease obligation	-	-	-	512 087	512 087	
Payables from exchange transactions	17 109 000	2 899 869	20 008 869	10 058 082	(9 950 787)	
VAT payable	-	-	-	908 191	908 191	
Consumer deposits	266 000	-	266 000	264 608	(1 392)	
Employee benefit obligation	-	-	-	358 000	358 000	
Unspent conditional grants and receipts	-	-	-	20 224 394	20 224 394	
Provisions	7 524 000	(1 376 000)	6 148 000	7 370 846	1 222 846	
Short term portion of long term liabilities	70 000	-	70 000	70 202	202	
Bank overdraft	-	15 836 000	15 836 000	-	(15 836 000)	
	<b>24 969 000</b>	<b>17 359 869</b>	<b>42 328 869</b>	<b>39 766 410</b>	<b>(2 562 459)</b>	
<b>Non-Current Liabilities</b>						
Borrowings	950 000	-	950 000	-	(950 000)	
Finance lease obligation	-	-	-	242 410	242 410	
Employee benefit obligation	-	-	-	10 048 000	10 048 000	
Provisions	11 486 000	-	11 486 000	-	(11 486 000)	
Annuity loan	-	-	-	(94 494)	(94 494)	
	<b>12 436 000</b>	<b>-</b>	<b>12 436 000</b>	<b>10 195 916</b>	<b>(2 240 084)</b>	
<b>Total Liabilities</b>	<b>37 405 000</b>	<b>17 359 869</b>	<b>54 764 869</b>	<b>49 962 326</b>	<b>(4 802 543)</b>	
<b>Net Assets</b>	<b>63 546 000</b>	<b>(8 263 101)</b>	<b>55 282 899</b>	<b>50 461 459</b>	<b>(4 821 440)</b>	

# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual R	Reference
	R	R	R	R	R	
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Accumulated surplus	63 546 000	(8 263 101)	55 282 899	67 443 211	12 160 312	
<b>Undefined Difference</b>	-	-	-	(16 981 752)	(16 981 752)	
<b>Total Net Assets</b>	<b>63 546 000</b>	<b>(8 263 101)</b>	<b>55 282 899</b>	<b>67 443 211</b>	<b>12 160 312</b>	

# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 91(1) of the Public Finance Management Act (Act 1 of 1999).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

#### 1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### 1.2 Segment information

A segment is an activity of an entity:

- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

Reportable segments are the actual segments which are reported on in the segment report. They are the segments identified above or alternatively an aggregation of two or more of those segments where the aggregation criteria are met.

#### 1.3 Significant judgements and sources of estimation uncertainty

The preparation of Annual Financial Statements, in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Municipality's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates that are significant to the Annual Financial Statements are disclosed in the relevant sections of the Annual Financial Statements. Although these estimates are based on management's knowledge of current events and actions they may undertake in future, actual results in the future could differ from these estimates which may be material to the Annual Financial Statements. Significant judgements include:

#### Trade receivables and loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting date. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, at weighted average percentage of 15% based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Consumer debtors are expected to be realised within 12 months after the reporting date.

#### Fair value estimation

The carrying value less impairment provision of trade receivables and payables approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in the detailed disclosure note 17 - Provisions.

# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

### 1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services; or
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at fair value.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

All the municipality's properties are held under freehold interest and no investment property has been pledged as security for any liabilities of the municipality.

There are no restrictions on the realisability of investment property or the remittance of revenue and the proceeds of disposal.

There are no contractual obligations on investment property.

Valuation of investment property was done by an independent valuer and the valuation certificates were issued effective August 2015. The valuations are performed on an annual basis. The valuation conforms to international standards and is arrived at by reference to market evidence of transaction prices for similar properties.

No impairment losses have been recognized on investment property at the reporting date.

### 1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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## Accounting Policies

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Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for X,X and X which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.



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Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

### 1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which the municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

The municipality has a landfill site which it is obligated to rehabilitate at the end of its useful life.

### 1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

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## Accounting Policies

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A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	x years

### 1.8 Financial instruments

### 1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

#### Finance leases - lessee

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## Accounting Policies

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Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment.

### Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

Any contingent rents are expensed in the period in which they are incurred.

### 1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.11 Employee benefits

### 1.12 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the financial period end.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the relevant notes to the financial statements.

### 1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts, volume rebates and value-added taxes (VAT).

#### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

#### Interest

Interest is recognised, in surplus or deficit, using the effective interest rate method.

### 1.14 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the municipality receives value from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

#### Measurement

# **MPOFANA MUNICIPALITY**

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## **Accounting Policies**

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Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

# **MPOFANA MUNICIPALITY**

Annual Financial Statements for the year ended 30 June 2016

## **Accounting Policies**

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### **Rates, including collection charges and penalties interest**

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

### **Fines**

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

### **Government grants**

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

### **Other grants and donations**

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

Donations are measured at the fair value of the consideration received or receivable when the amount of the revenue can be measured reliably.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

### **1.15 Borrowing costs**

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### **1.16 Commitments**

Commitments are not recognised. Commitments are disclosed in the notes to the Annual Financial Statement. A commitment is disclosed unless the possibility of an outflow of resources embodying economic benefit is remote.

### **1.17 Comparative figures**

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.18 Expenditure

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in a decrease in net assets.

An expense is recognised in the municipality's Statement of Financial Performance when the following criteria is satisfied: The cost or value may involve estimation. Where an item possesses the essential characteristics of an expense but fails to meet the criteria for recognition, it is disclosed in the note; and:

All expenditure has been dealt with in terms of the above definition and recognition criteria. The cost or value may involve estimation.

Expenses are generally accounted for on an accrual basis at fair value. Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction. Under the accrual basis of accounting, expenses are recognised as incurred when goods are received or services are consumed. This may not be when goods are paid for.

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.19 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure means expenditure which was incurred which does not result in future economic benefits flowing to the municipality and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.20 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.21 Housing subsidies

The municipality provides post-retirement housing subsidies for qualifying staff members. The payment of these subsidies is reflected as expenditure in the municipality.

### 1.22 Gratuities

The municipality provides gratuities for qualifying staff members in terms of the relevant conditions of employment. The expenditure is recognised in the municipality when the gratuity is paid.

### 1.23 Related parties

The municipality has processes and controls in place to aid in the identification of related parties. A related party is a person or an entity with the ability to control or jointly control the other party or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. Related party relationships where control exists are disclosed regardless of whether any transactions took place between the parties during the reporting period.

# **MPOFANA MUNICIPALITY**

Annual Financial Statements for the year ended 30 June 2016

## **Accounting Policies**

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### **1.24 Going concern**

The financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

### **1.25 Budget information**

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by the municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a reconciliation with the budgeted amounts for the reporting period have been included in the Annual Financial Statements.

Comparative information is not required.

Deviations between budget and actual amounts are regarded as material differences when a 10% deviation exists. All material differences are explained in the relevant Notes to the Annual Financial Statements.



# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>2. Inventories</b>		
Consumable stores	273 815	76 130
<b>3. VAT receivable</b>		
<b>4. Other receivables</b>		
Fines	5 853 069	5 853 069
Sundry debtors	497 477	497 477
Allowance for impairment	(497 477)	-
	<b>5 853 069</b>	<b>6 350 546</b>
Sundry debtors relate to the following:		
- Salary overpayment made to Council and it relate to prior years.		
<b>5. Loans and receivables</b>		
<b>Current assets</b>		
Loans and receivables	399 638	(90 537 927)
<b>6. Receivables from exchange transactions</b>		
<b>Gross balances</b>		
Rates	24 685 963	30 160 382
Electricity	5 273 578	6 147 929
Refuse	12 560 175	10 839 144
Sundry debtors	37 283 973	21 825 803
	<b>79 803 689</b>	<b>68 973 258</b>
<b>Less: Allowance for impairment</b>		
Rates	(12 342 982)	(13 713 492)
Electricity	(1 054 676)	(1 210 014)
Refuse	(8 792 123)	(4 436 718)
Sundry debtors	(26 098 781)	(20 973 576)
	<b>(48 288 562)</b>	<b>(40 333 800)</b>
<b>Net balance</b>		
Rates	12 342 981	16 446 890
Electricity	4 218 902	4 937 915
Refuse	3 768 052	6 402 426
Sundry debtors	11 185 192	852 227
	<b>31 515 127</b>	<b>28 639 458</b>
<b>Rates</b>		
Current (0 -30 days)	1 295 447	15 973
31 - 60 days	471 278	655 939
61 - 90 days	386 106	931 036
91 - 120 days	22 533 132	6 872 750
	<b>24 685 963</b>	<b>8 475 698</b>

# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>6. Receivables from exchange transactions (continued)</b>		
<b>Electricity</b>		
Current (0 -30 days)	1 787 691	874 464
31 - 60 days	322 607	225 992
61 - 90 days	182 563	114 962
91 - 120 days	2 980 517	1 823 832
	<b>5 273 378</b>	<b>3 039 250</b>
<b>Refuse</b>		
Current (0 -30 days)	567 720	244 877
31 - 60 days	262 604	228 693
61 - 90 days	260 946	223 448
91 - 120 days	11 468 904	4 550 010
	<b>12 560 174</b>	<b>5 247 028</b>
<b>Sundries</b>		
Current (0 -30 days)	909 169	462 855
31 - 60 days	437 310	406 117
61 - 90 days	432 901	393 195
91 - 120 days	35 504 592	10 615 315
	<b>37 283 972</b>	<b>11 877 482</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(40 333 800)	(36 080 518)
Contributions to allowance	(7 954 762)	(4 253 282)
	<b>(48 288 562)</b>	<b>(40 333 800)</b>
<b>Consumer debtors past due but not impaired</b>		
Consumer debtors which are less than 3 months past due are not considered to be impaired. As per the review of the debtors database some debtors that are above 3 months were not considered to be doubtful. At 30 June 2016, R2,703,843 - (2015: R2,223,536 -).		
<b>Consumer debtors impaired</b>		
As of 30 June 2016, consumer debtors of (R48,288, 562) - (2015: R 40 333 800) were impaired and provided for.		
<b>7. Financial assets - Investments</b>		
<b>Call investments</b>		
FNB Investment call account - 62187203957	10 949 215	7 418 874
FNB Investment call account - 62237621760	449	10 257
ABSA Investment account - 6303799366	962 256	961 272
FNB Investment Call account - 62172488085	510 311	583 197
FNB Investment call account -62141712001	(10 929 175)	11 170
FNB Investment call account - 62172498183	345 493	236 515
FNB Investment call account - 62134172890	4 345	101 376
FNB Investment call account - 62172493935	1 181	88 860
FNB Investment call account - 62036716746	215	39 799
FNB Investment call account - 62173946040	5 096	34 065
FNB Investment call account - 62066847553	1 067 220	2 187
FNB Investment call account	(79)	(79)
FNB Investment call account	79	79
	<b>2 916 606</b>	<b>9 487 572</b>

# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>8. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	800	800
Bank balances	2 158 082	2 686 562
	<b>2 158 882</b>	<b>2 687 362</b>

### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
First National Bank Limited - Mooi River branch - Public sector current account - Account number 53050399907	2 410 490	2 560 694	2 052 318	2 096 789	2 488 211	1 310 809
First National Bank Limited - Mooi River branch - Public sector current account - Account number 62101108034	61 293	198 351	337 243	61 293	198 351	337 243
<b>Total</b>	<b>2 471 783</b>	<b>2 759 045</b>	<b>2 389 561</b>	<b>2 158 082</b>	<b>2 686 562</b>	<b>1 648 052</b>

### 9. Investment property

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	5 335 395	-	5 335 395	11 684 545	-	11 684 545

#### Reconciliation of investment property - 2016

	Opening balance	Difference	Fair value adjustments	Total
Investment property	11 684 545	(6 340 500)	(8 650)	5 335 395

#### Reconciliation of investment property - 2015

	Opening balance	Difference	Fair value adjustments	Total
Investment property	13 917 000	6 349 150	(8 581 605)	11 684 545

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal are as follows:

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements is as follows:

In the exceptional cases when the municipality have to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

- a description of the investment property,

# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
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### 9. Investment property (continued)

- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
  - the fact that the entity has disposed of investment property not carried at fair value,
  - the carrying amount of that investment property at the time of sale, and
  - the amount of gain or loss recognised.

### 10. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	3 240 776	-	3 240 776	3 318 590	-	3 318 590
Buildings	6 308 689	(5 308 423)	1 000 266	6 483 755	(5 259 765)	1 223 990
Infrastructure	85 469 601	(52 911 111)	32 558 490	86 337 219	(48 783 085)	37 554 134
Other property, plant and equipment	6 588 000	(4 449 074)	2 138 926	6 867 674	(3 110 406)	3 757 268
Capital work in progress	11 458 928	-	11 458 928	11 458 928	-	11 458 928
Finance lease assets	7 079 922	(6 503 137)	576 785	8 683 044	(5 183 392)	3 499 652
Landfill site	7 009 482	(6 194 971)	814 511	7 009 482	(6 093 157)	916 325
<b>Total</b>	<b>127 155 398</b>	<b>(75 366 716)</b>	<b>51 788 682</b>	<b>130 158 692</b>	<b>(68 429 805)</b>	<b>61 728 887</b>

#### Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Land	3 318 590	-	(77 814)	-	-	3 240 776
Buildings	1 223 990	307 173	-	(198 704)	(332 193)	1 000 266
Infrastructure	37 554 134	3 484 530	-	(8 480 174)	-	32 558 490
Other property, plant and equipment	3 757 268	791 676	-	(2 410 018)	-	2 138 926
Capital work in progress	11 458 928	-	-	-	-	11 458 928
Finance lease assets	3 499 652	1 495 271	-	(1 036 463)	(3 381 675)	576 785
Landfill site	916 325	291 410	-	(393 224)	-	814 511
<b>Total</b>	<b>61 728 887</b>	<b>6 370 060</b>	<b>(77 814)</b>	<b>(12 518 583)</b>	<b>(3 713 868)</b>	<b>51 788 682</b>

#### Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	3 318 590	-	-	-	-	-	3 318 590
Buildings	1 385 436	155 818	(79 567)	-	(237 697)	-	1 223 990
Infrastructure	37 420 676	-	-	3 365 947	(3 212 327)	(20 162)	37 554 134
Other property, plant and equipment	1 698 113	2 909 197	-	-	(838 349)	(11 693)	3 757 268
Capital work in progress	4 758 917	9 207 423	-	(2 507 412)	-	-	11 458 928
Finance lease assets	2 326 556	2 097 628	(16 583)	-	(907 949)	-	3 499 652
Landfill site	1 406 072	-	-	-	(489 747)	-	916 325
<b>Total</b>	<b>52 314 360</b>	<b>14 370 066</b>	<b>(96 150)</b>	<b>858 535</b>	<b>(5 686 069)</b>	<b>(31 855)</b>	<b>61 728 887</b>

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
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### 11. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	24 113	59 608	83 721	24 113	61 348	85 461

#### Reconciliation of intangible assets - 2016

	Opening balance	Amortisation	Total
Computer software, other	85 461	(1 740)	83 721

#### Reconciliation of intangible assets - 2015

	Opening balance	Difference	Amortisation	Total
Computer software, other	23 298	69 920	(7 757)	85 461

### 12. Finance lease obligation

#### Minimum lease payments due

- within one year	680 529	939 228
- in second to fifth year inclusive	314 090	89 896

less: future finance charges and Maintenance

994 619	1 029 124
(240 122)	(579 106)

#### Present value of minimum lease payments

<b>754 497</b>	<b>450 018</b>
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#### Present value of minimum lease payments due

- within one year	245 315	410 803
- in second to fifth year inclusive	509 182	39 215

<b>754 497</b>	<b>450 018</b>
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The average lease term is 5 years. Interest rates are linked to prime for printers and prime less 2% for motor vehicles, at the contract date. Contingent rents have been recognised as an expense in the statement of financial performance.

### 13. Payables from exchange transactions

Trade payables	26 626 573	364 208
Accruals	(4 866 292)	6 525 394
Debtor payments received in advance	1 817 001	3 604 242
Accruals - uMgungundlovu District Municipality	-	605 385
Unallocated receipts	27 728	27 728
	<b>23 605 010</b>	<b>11 126 957</b>

Trade payables are normally settled within 30 days.

# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>14. Consumer deposits</b>		
Electricity	276 558	247 766
Water	200	-
Other	(12 150)	-
	<b>264 608</b>	<b>247 766</b>

Interest is not paid to consumers when deposits are refunded and hence it is not accrued on consumer deposits value.

## 15. Employee benefit obligations

### Defined benefit plan

#### Post retirement medical aid plan

The Council operates a defined medical aid benefit scheme for the benefit of its qualifying employees.

Post-retirement medical aid benefits are offered to qualifying employees by subsidising a portion of the medical aid contribution after retirement.

The municipality is committed to pay subsidies broadly as follows:

- 60% to current employees
- 60%/100% to current continuation retirees
- Widow(er)s and orphans of current employees are entitled to continue at 60% or 100%, the subsidy upon the death of the pensioner.

#### Long service bonus awards

The long service bonus awards consist of an obligation to pay out bonus in the year of the employee attaining the required service. This obligation represents a liability to the municipality and the value is represented by the present value of the total long service bonus awards expected to become payable under the municipality's current policy.

The municipality offers bonuses for every five years of completed service from ten years to forty five years. Long service accumulated leave must be taken within one year of receiving such leave or may be wholly or partially cashed. It has been assumed that in all cases, employees choose to exercise the option to wholly convert their accumulated leave days bonus into cash.

The most recent actuarial valuation was performed for the above mentioned obligations on 30 June 2015 by One Pangaea Financial using Projected Unit Credit Method.

The full obligation has been recognised as at the date of the statement of financial position.

The aggregate amounts recognised in the statement of financial position are as follows:

### Carrying value

Opening balance	11 223 000	(10 728 000)
Current service cost	(724 000)	(734 000)
Interest cost	(1 020 000)	(999 000)
Benefit payment	439 000	448 000
Acturial gain /(losses)	902 000	790 000
	<b>10 820 000</b>	<b>(11 223 000)</b>
Non Current Liabilities	(10 381 000)	(10 775 000)
Current Liabilities	(439 000)	(448 000)
	<b>(10 820 000)</b>	<b>(11 223 000)</b>

### Net expense recognised in the statement of financial performance

# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>15. Employee benefit obligations (continued)</b>		
Current service cost	724 000	734 000
Interest cost	1 020 000	999 000
Benefit payment	(439 000)	(448 000)
Acturial gain /(losses)	(902 000)	(790 000)
	<b>403 000</b>	<b>495 000</b>
<b>5.1. Post retirement medical aid</b>		
Opening balance	(9 962 000)	(9 562 000)
Current service cost	(570 000)	(556 000)
Interest cost	(917 000)	(904 000)
Benefit payment	344 000	345 000
Acturial gain / (Losses)	946 000	715 000
	<b>(10 159 000)</b>	<b>(9 962 000)</b>
Non Current Liabilities	(9 815 000)	(9 617 000)
Current Liabilities	(344 000)	(345 000)
	<b>(10 159 000)</b>	<b>(9 962 000)</b>
<b>Net expense recognised in the statement of financial performance</b>		
Current service cost	570 000	556 000
Interest cost	917 000	904 000
Acturial gain/ (Losses)	(946 000)	(715 000)
Benefit payment	(344 000)	(345 000)
	<b>197 000</b>	<b>400 000</b>
<b>5.2. Long service bonus awards</b>		
Opening balance	(1 261 000)	(1 166 000)
Current Service cost	(154 000)	(178 000)
Interest cost	(103 000)	(95 000)
Benefit payment	95 000	103 000
Acturial gain /(Losses)	(44 000)	75 000
	<b>(1 467 000)</b>	<b>(1 261 000)</b>
Non Current Liabilities	(1 372 000)	(1 158 000)
Current Liabilities	(95 000)	(103 000)
	<b>(1 467 000)</b>	<b>(1 261 000)</b>
<b>Net expense recognised in the statement of financial performance</b>		
Current service cost	154 000	178 000
Interest cost	103 000	95 000
Acturial gain/(Losses)	(44 000)	(75 000)
Curtailment or settlement	(95 000)	(103 000)
	<b>118 000</b>	<b>95 000</b>

The municipality became aware of the above obligations in the current year. They were previously not recognised. Refer note 40.

Key assumptions used

Assumptions used at the reporting date:

# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>15. Employee benefit obligations (continued)</b>		
Discount rate used	9.55%	9.37%
Health care cost inflation	7.06%	6.89%
Consumer price index	8.56%	8.39%
<b>Retirement age</b>		
Female	63	63
Male	63	63
Number of eligible members	67	70
Number of pensioners	9	9

Other assumptions - post retirement medical aid

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and the interest cost	2 010 000	1 266 000
Effect on defined benefit obligation	12 337 000	8 499 000
	<b>14 347 000</b>	<b>9 765 000</b>

Other assumptions - long service bonus awards

The valuation bases assumed that the salary inflation rate ( which manifest its self as an annual increase in employees' salaries which determine the bonuses payable) will be 0,09% less than the corresponding discount rate, in the long term. The effect of 1% increase and decrease in the salary inflation rate is as follows:

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and the interest cost	353 000	285 000
Effect on the employees benefit obligation	1 617 000	1 336 000
	<b>1 970 000</b>	<b>1 621 000</b>

### Defined contribution plan

Certain municipal councillors and employees belong to The Natal Joint Municipal Pension Fund (Superannuation) and The Natal Joint Municipal Pension Fund (Retirement) which are administered by the Province.

These schemes cannot be broken down per municipality, as they are considered to be multi-employer schemes and hence are treated as defined contribution schemes by the municipality. Information from the schemes as a whole is included below.

Municipal employees are also members of the KwaZulu Natal Joint Municipal Provident Fund, South African Local Authorities (SALA) Provident and Retirement Funds. All contributions have been included in the employee related cost note.



# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
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### 15. Employee benefit obligations (continued)

#### SUPERANNUATION FUND

As at 31 March 2012 (the last date of valuation), the actuarial value of total assets was R 121,7 million more than the actuarial value of liabilities for service of members to that date and for pensioners, made up as follows:

- Surplus of R 210 million in respect of pensioners (funding level 119,4%)
- Deficit of R 88,3 million in respect of members ( funding level 95%)
- The fund was thus 104% funded
- The fund did not hold an investment reserve
- The total contribution rate payable,including the surcharge by and on behalf of members,exceeded that required for future service by 1,41 % of members pensionable emoluments
- An additional contribution by way of a surcharge amounting to 6% of salaries is currently in place to fund the deficit. The surcharge have been reduce to 4,5% with effect from 1 July 2007

#### RETIREMENT FUND

As at 31 March 2012 (the last date of valuation), the actuarial value of total assets was R 140,9 million more that the actuarial value of liabilities for services of members to that date and for pensioners made up as follows:

- Surplus of R 63,4 million in respect of pensioners ( funding level 116,2% )
- Deficit of R204,3 million in respect of members ( funding level 73%)
- The fund was thus 87,7% funded
- The fund did not hold an investment reserve
- The total contribution rate payable (including the surcharge of 14 % payable jointly by pre-1 July 2002 members and their employers on their behalf) exceeded that required for future service by 12,59% of members' pensionable emoluments. This should be sufficient , provided that salary increases do not exceed CPIX plus 0,5 %.

### 16. Unspent conditional grants and receipts

#### Unspent conditional grants and receipts comprises of:

Cragieburn housing project grant	5 840 388	5 840 388
Expanded Public Works Programme Grant	-	120 941
Municipal Assistance Grant- Small Town grant	5 700 175	5 000 000
Municipal Systems Improvement Grant	389 790	-
Townview housing project grant	8 168 481	8 168 481
Environmental project grant	-	100 000
Library	125 560	-
	<b>20 224 394</b>	<b>19 229 810</b>

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government

#### Municipal Systems Improvement Grant

Additions during the year	930 000	934 000
Income recognition during the year	(540 210)	(934 000)
	<b>389 790</b>	<b>-</b>

#### Municipal Assistance Grant

# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>16. Unspent conditional grants and receipts (continued)</b>		
Balance at the beginning of the year	5 000 000	-
Additions during the year	3 000 000	5 000 000
Income recognition during the year	(2 299 825)	-
	<b>5 700 175</b>	<b>5 000 000</b>
<b>Townview housing project grant</b>		
Balance at the beginning of the year	8 168 481	8 168 481
<b>Cragieburn housing project grant</b>		
Balance at the beginning of the year	5 840 388	5 840 388
<b>Financial management grant</b>		
Balance at the beginning of the year	-	15
Additions during the year	1 800 000	1 800 000
Income recognition during the year	(1 800 000)	(1 800 015)
	-	-
<b>Environmental project grant</b>		
Balance at the beginning of the year	-	100 000
<b>Library grant</b>		
Additions during the year	928 000	-
Income recognition during the year	(802 440)	-
	<b>125 560</b>	-
<b>Municipal Infrastructure Grant</b>		
Balance at the beginning of the year	-	1 733 398
Additions during the year	16 295 000	9 830 000
Income recognition during the year	(16 295 000)	(9 830 398)
Transferred to Equitable Shares	-	(1 733 000)
	-	-
<b>Intergrated National Electrification Program</b>		
Additions during the year	6 000 000	5 000 000
Income recognition during the year	(6 000 000)	(5 000 000)
	-	-
<b>Meseum</b>		
Additions during the year	166 000	302 000
Income recognition during the year	(166 000)	(302 000)
	-	-
<b>Expanded Public Works Programme grant</b>		

# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>16. Unspent conditional grants and receipts (continued)</b>		
Balance at the beginning of the year	120 941	2 155
Additions during the year	1 000 000	1 000 000
Income recognition during the year	(1 120 941)	(881 214)
	<b>-</b>	<b>120 941</b>

## 17. Provisions

### Reconciliation of provisions - 2016

	Opening Balance	Additions	Utilised during the year	Total
Provision for landfill site	5 134 133	271 368	-	5 405 501
Provision for leave pay	2 236 713	-	-	2 236 713
	<b>7 370 846</b>	<b>271 368</b>	<b>-</b>	<b>7 642 214</b>

### Reconciliation of provisions - 2015

	Opening Balance	Additions	Utilised during the year	Total
Provision for landfill site	5 809 080	-	(674 947)	5 134 133
Provision for leave pay	2 097 224	139 489	-	2 236 713
	<b>7 906 304</b>	<b>139 489</b>	<b>(674 947)</b>	<b>7 370 846</b>

#### Landfill site

The landfill site provision is raised for the rehabilitation of the waste disposal site to its original state once the site has reached the end of its useful life. This is expected to be paid by 30 June 2017.

A discounting factor based on prime interest and adjustment for municipal specific risk was applied.

#### Leave pay

The leave pay provision is accrued at the Basic Conditions of Employment Act rate and is accumulated to a maximum of 48 days per employee.

## 18. Annuity loan

### Annuity Loans

DBSA Loans	(24 292)	137 426
Less: Current portion transferred to current liabilities	(70 202)	(137 426)
<b>Long term portion</b>	<b>(94 494)</b>	<b>-</b>

The municipality received five loans from the Development Bank of Southern Africa (DBSA) to fund water, electricity and sewerage expenditure. The terms of the loans vary between forty to sixty years. Each loan has a fixed interest rate however, all loans have different fixed interest rates. Interest rates are between 14,50% to 16,32% per annum, payable every six months.

Three of the five loans received were recoverable from uMgungundlovu District Municipality as the water and sanitation function was ceded to the District Municipality. .

# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>19. Revenue</b>		
Fines, Penalties and Forfeits	410 650	6 449 569
Government grants & subsidies	56 727 417	44 264 627
Interest received - investment	2 550 490	2 680 850
Licences and permits	1 484 236	2 521 412
Other income	1 864 642	1 604 703
Fair value adjustment	(70 854)	213 545
Property rates	10 646 915	10 111 519
Property rates - penalties imposed	2 406 165	2 294 937
Rental of facilities and equipment	446 719	533 684
Donations received	-	835 418
Service charges	49 791 792	45 036 751
	<b>126 258 172</b>	<b>116 547 015</b>

### The amount included in revenue arising from exchanges of goods or services are as follows:

Interest received - investment	2 550 490	2 680 850
Licences and permits	1 484 236	2 521 412
Other income	1 864 642	1 604 703
Fair value adjustment	(70 854)	213 545
Rental of facilities and equipment	446 719	533 684
Service charges	49 791 792	45 036 751
	<b>56 067 025</b>	<b>52 590 945</b>

### The amount included in revenue arising from non-exchange transactions is as follows:

#### Taxation revenue

Donations received	-	835 418
Property rates - penalties imposed	2 406 165	2 294 937
Property rates	10 646 915	10 111 519

#### Transfer revenue

Government grants & subsidies	56 727 417	44 264 627
Fines, Penalties and Forfeits	410 650	6 449 569
	<b>70 191 147</b>	<b>63 956 070</b>

## 20. Service charges

Refuse removal	3 243 384	2 739 515
Sale of electricity	46 548 408	42 297 236
	<b>49 791 792</b>	<b>45 036 751</b>

## 21. Rental income

#### Premises

Premises	437 801	515 593
Venue hire	8 918	18 091
	<b>446 719</b>	<b>533 684</b>

# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>22. Other income</b>		
Other income	1 085 122	321 054
Income from N3TC	779 520	640 819
Reversal/(Increase) in landfill site provision	-	543 980
Other income 5	-	98 850
	<b>1 864 642</b>	<b>1 604 703</b>
<b>23. Investment revenue</b>		
<b>Interest revenue</b>		
Bank	209 230	503 028
Interest charged on consumer debtors	2 244 431	2 010 684
Interest received - other	96 829	167 138
	<b>2 550 490</b>	<b>2 680 850</b>
<b>24. Finance costs</b>		
Interest on finance leases	139 527	232 180
Interest on bank overdraft	71	91 012 805
Provision for landfill site (unwinding)	-	140 401
	<b>139 598</b>	<b>91 385 386</b>

# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>25. Property rates</b>		
<b>Rates received</b>		
Commercial	2 485 968	2 387 342
Communal property land	209 099	199 992
Hospitality and tourism	1 069 339	1 027 293
Municipal	6 405 700	6 112 244
Public benefit organisation	661 321	611 841
Residential	7 840 698	7 459 887
State	286 309	200 451
Less: Income forgone (Rate Rebate)	(8 311 519)	(7 887 531)
	(184 512)	(227 193)
Property rates - penalties imposed	2 406 165	2 294 937
	<b>13 053 080</b>	<b>12 406 456</b>

### Valuations

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 01 July 2012.

Rebates of 30% were granted to rates on residential properties, 55% on agricultural properties, 30% on public service infrastructure and 20% on public benefit organisation. In the 2011/2012 year rebates of 30% were granted to rates on residential, 55% agricultural properties.

Rates are levied on a monthly basis.

Rates are levied on the following properties as per the valuation roll:

### Property valuations

Agricultural	1 845 126 000	1 848 116 000
Agricultural smallholding	149 550 000	150 100 000
Business and commercial	193 645 000	198 645 000
Communal property and land reform	70 820 000	70 820 000
Industrial	2 260 000	2 260 000
Municipal	12 739 000	10 888 000
Place of worship	24 850 000	24 850 000
Public benefit organisation	121 945 000	121 945 000
Public service infrastructure	23 753 000	23 753 000
Residential and Residential hospitality	907 896 700	908 446 700
Sectional title - Commercial	2 200 000	2 200 000
Sectional title - Residential	8 030 000	8 030 000
State	91 100 000	91 100 000
State owned	75 297 000	55 732 000
Tourism and hospitality	121 385 000	121 635 000
	<b>3 650 596 700</b>	<b>3 638 520 700</b>

# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>26. Government grants and subsidies included in revenue</b>		
<b>Operating grants</b>		
Environmental Affairs subsidy	1 138 050	-
Equitable share	27 603 000	24 807 000
Finance management grant (FMG)	1 800 000	1 800 015
Intergrated National Electrical Program	6 000 000	5 000 000
Government grant (operating) 3	1 161 776	-
Government grant (operating) 4	100 000	-
Provincial Library subsidy	802 440	710 000
Municipal system improvement grant (MSIG)	540 210	934 000
Museum grant	166 000	302 000
Extended Public Works Program	1 120 941	881 214
	<b>39 294 367</b>	<b>34 434 229</b>
<b>Capital grants</b>		
Municipal infrastructure grant (MIG)	16 295 000	9 830 398
	<b>16 295 000</b>	<b>9 830 398</b>
	<b>56 727 417</b>	<b>44 264 627</b>

### Equitable share

In terms of the Section 227 of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. The Equitable share grant also provides funding for the municipality to deliver free basic services to poor households and to subsidise the cost of administration and other core services for the municipality.

### Museum subsidy

This subsidy has been granted to the municipality for operational upkeep of the museum in the area.

### Municipal infrastructure grant (MIG)

This grant is used to address backlogs in municipal infrastructure required for the provision of basic services.

### Expanded public works programme (EPWP)

This subsidy is provided by the Department of Public Works to assist with the alleviation of poverty in the municipal area by providing temporary employment for the unemployed.

### Small town grant

This subsidy is provided by the Department of Cooperative Governance and Traditional Affairs to perform feasibility studies with a view of developing the town by improving its economic state and attracting investment.

## 27. Impairment of assets

### Impairments

Property, plant and equipment	81 554	-
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Impairment losses are calculated based on the result of a physical verification conducted during which a condition assessment is performed.

# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>28. Employee related costs</b>		
Acting allowances	321 113	198 243
Basic	19 320 750	17 843 938
Bonus	1 399 560	1 285 051
Cellphone allowances	22 200	26 050
Defined contribution plans	3 737 138	3 480 395
Housing benefits and allowances	304 630	103 520
Leave pay provision charge	-	139 489
Long service awards	315 000	495 000
Medical aid - company contributions	1 520 267	1 397 084
Other payroll levies	10 717	9 795
Overtime payments	1 475 361	1 322 576
Redemption leave	297 164	237 586
SDL	235 154	218 770
Travel, motor car, accommodation, subsistence and other allowances	1 448 524	2 016 442
UIF	170 473	165 308
Other allowances	18 000	-
	<b>30 596 051</b>	<b>28 939 247</b>
<b>Remuneration of Municipal Manager</b>		
Annual Remuneration	800 800	648 000
Car, travel accommodation allowance and other	132 000	293 516
	<b>932 800</b>	<b>941 516</b>
<b>Remuneration of Chief Finance Officer</b>		
Annual Remuneration	403 541	412 500
Car, travel accommodation allowance and other	229 193	249 040
Leave pay	79 448	-
	<b>712 182</b>	<b>661 540</b>
<b>Remuneration of Director Corporate Services</b>		
Annual Remuneration	-	291 229
Car, travel accommodation allowance and other	-	124 813
	<b>-</b>	<b>416 042</b>
<b>Remuneration of Director Technical Services</b>		
Annual Remuneration	476 250	450 000
Car, travel accommodation allowance and other	171 271	234 271
	<b>647 521</b>	<b>684 271</b>
<b>Remuneration of Director Social Services</b>		
Annual Remuneration	333 375	315 000
Car, travel accommodation allowance and other	339 996	354 775
	<b>673 371</b>	<b>669 775</b>



# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>29. Remuneration of councillors</b>		
Mayor	-	489 189
Councillors	1 676 379	565 090
Councillors' pension contribution	250 737	116 604
Councillors' allowances	563 469	376 279
	<b>2 490 585</b>	<b>1 547 162</b>
<b>30. Depreciation and amortisation</b>		
Property, plant and equipment	6 613 584	5 510 773
Intangible assets	-	7 756
	<b>6 613 584</b>	<b>5 518 529</b>
<b>31. Debt impairment</b>		
Contributions to debt impairment provision	7 954 761	4 432 303
<b>32. Bulk purchases</b>		
Electricity	60 072 247	41 491 713
<b>33. Contracted services</b>		
Contracted services	13 782 201	3 818 394

# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>34. General expenses</b>		
Advertising	163 404	85 733
Auditors remuneration	1 025 772	1 360 549
Cleaning	46 645	94 086
Computer expenses	106 837	358 834
Consulting and professional fees	1 892 768	871 500
Consumables	(58 732)	39 900
Deed transfers	12 238	21 296
Entertainment	87 700	62 793
Pauper burials	(2 400)	1 200
Hire	903 061	346 359
Insurance	179 859	155 276
Conferences and seminars	7 970	2 000
Valuation expenses	-	214 226
Medical expenses	195 004	352 667
Motor vehicle expenses	18 328	-
Pensioners medical aid	235 730	339 694
Fuel and oil	5 986	705 067
Postage and courier	63 865	106 446
Printing and stationery	82 496	162 362
Sundry costs	653 929	263 320
Software expenses	969	388 482
Telephone and fax	3 102	627 659
Transport and freight	24 000	-
Training	987 951	684 986
Travel - local	42 206	939
Service connections	774 614	393 127
Assets expensed	769 842	-
Electricity	-	237 626
Uniforms	182 960	57 711
Legal fees	-	667 971
Public participation	238 000	-
Grant expenditure	20 144 056	6 128 466
Publications	11 340	6 990
Team building workshops	-	1 000
Legal expenses	103 853	94 649
Other expenses	377 863	355 243
Restructuring	710 302	-
	<b>29 991 518</b>	<b>15 188 157</b>

### 35. Auditors' remuneration

Fees	1 025 772	1 360 549
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### 36. Operating lease

The municipality had the following outstanding commitments under operating leases in the prior year:

#### Operating leases - lessee

Within one year	-	764 949
In the second to fifth year	-	2 607 060
	<b>-</b>	<b>3 372 009</b>

The operating lease payments represented rentals payable by the municipality for certain of its fleet vehicles and IT equipment.

# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>37. Cash generated from operations</b>		
Deficit	(29 548 164)	(78 329 865)
<b>Adjustments for:</b>		
Depreciation and amortisation	6 613 584	5 518 529
Finance costs - Finance leases	139 527	232 180
Impairment deficit	81 554	-
Debt impairment	7 954 761	4 432 303
Movements in retirement benefit assets and liabilities	(817 000)	495 000
Movements in provisions	-	(535 458)
Bad debts written off	-	497 477
<b>Changes in working capital:</b>		
Inventories	(197 685)	167 984
Consumer debtors	93 647 103	(8 074 750)
Other receivables from non-exchange transactions	497 477	85 623 478
Prepayments	-	9 352
Payables from exchange transactions	(5 164 499)	(2 975 337)
VAT	(1 343 708)	1 018 138
Unspent conditional grants and receipts	994 584	3 485 373
Consumer deposits	16 842	(17 759)
	<b>72 874 376</b>	<b>11 546 645</b>

## 38. Commitments

### Authorised capital expenditure

#### Approved and contracted for

• Rosseta Multi-purpose centre	133 855	-
• Urban Road CBD	3 067 217	13 823 586
• Rural Road	649 578	-
	<b>3 850 650</b>	<b>13 823 586</b>

#### Operating Contracts

• Contracts due within 1 Year	-	2 769 031
• Contracts due 2 to 5 years	-	4 097 859
	<b>-</b>	<b>6 866 890</b>

#### Total capital commitments

Already contracted for but not provided for	3 850 650	13 823 586
Not yet contracted for and authorised by accounting officer	-	6 866 890
	<b>3 850 650</b>	<b>20 690 476</b>

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

## 39. Contingencies

Contingencies arising from pending litigation on damage to vehicle claim

Litigation is in process against the municipality on claims relating to damage to motor vehicle. Conclusion of the process is dependent on the litigation process being completed, therefore the timing of economic outflows is uncertain. An amount of R87,148 is being claimed against the municipality in the case of Maggie Mtshali vs Mpofana Municipality.

# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R	
<b>40. Prior period errors</b>			
<b>Prior year error</b>	2013/14 Previously stated	2013/14 Restated	Difference
Employee benefit obligation	(10 644 000)	(10 370 000)	274 000
Provisions	(7 479 873)	(7 751 241)	(271 368)
Investment property	8 581 000	13 451 000	4 870 000
Revaluation reserve	(8 581 000)	(13 451 000)	(4 870 000)
General expenses	13 860 821	13 858 459	(2 632)
	<b>(4 263 052)</b>	<b>(4 262 782)</b>	-

The prior year figures of classes in the Statement of Financial Position and statement of financial performance have been restated to correctly classify the nature of Assets, Liabilities, net Assets, Income and expenditure of the Municipality.

The effect of the correction of Error is as follows:

### Prior year error is summarised as follows

	-	(271 368)
	-	274 000
	-	4 870 000
	-	(4 870 000)
	-	<b>2 632</b>

### Provision for landfill site restated

	-	(5 809 080)
	-	(271 368)
	-	<b>(6 080 448)</b>

### Land as restated

#### Surplus for the year restated

Surplus for the year as previously stated	-	8 165 046
Prior period error	-	(2 362)
Restated surplus	-	8 162 414

#### Statement of changes in net assets

Revaluation Reserve	-	4 870 000
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## 41. Going concern

We draw attention to the fact that the municipality has unspent conditional grants liabilities that are not fully cash backed.

The unspent conditional grants liability amounts to R20 224 394 and the municipality has investments to the value of R399 638.

The annual financial statements have however been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of service delivery.

## 42. Events after the reporting date

At the time of completion of the annual financial statements, there were no events after the reporting date affecting these Annual Financial Statements.

# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
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### 43. Unauthorised expenditure

Opening balance	25 339 319	16 632 918
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At the time of completion of the Annual Financial Statements, there was no unauthorised expenditure for the year up to June 2015.

### 44. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure for current year	1 055 166	103 280
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Interest and penalty charges were levied for the late payment of Eskom invoices for electricity bulk purchases and late payment of Telkom invoices.

### 45. Irregular expenditure

Opening balance	-	14 193 817
Add: Irregular Expenditure - current year	2 443 901	6 487 534
Add: Irregular expenditure from deviations	-	957 984
	<b>2 443 901</b>	<b>21 639 335</b>

At the time of completion of the annual financial statements no irregular expenditure had been incurred.

# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>46. Deviation from supply chain management regulations</b>		
In terms of section 36(2) of the Municipal Supply Chain Management Regulation approved by council, any deviation from the Supply Chain Management Policy needs to be approved/ Condoned by the Municipal manager, noted by council where the formal procurement processes could not be followed must be noted in the Annual Financial Statements		
The following deviations from the tender stipulations in terms of the municipality's Supply Chain Management policy ratified by the Municipal Manager and reported to council.		
<b>Deviation</b>		
Ilanga Newspaper	5 282	-
DA Metering Services	6 550	-
NMR Hardware	3 705	-
NMR Hardware	3 705	-
Jark Engineering	4 446	-
Sarupens Transport cc	7 843	-
Greenfields Foton	4 725	-
Mooi River District Taxi Association	3 000	-
NMR Hardware	14 820	-
Muden Taxi Association	3 700	-
Media 24	4 108	-
Muden Taxi association	3 700	-
NMR Hardware	11 115	-
Government Printing Works	45 736	-
NMR Hardware	3 705	-
MY Space	3 650	-
Mooi River District Taxi Association	5 000	-
Mooi River District Taxi Association	4 500	-
NMR Hardware	1 881	-
Mooi River District Taxi association	35 100	-
Northmec	2 975	-
NMR Hardware	2 508	-
Mooi River District taxi association	1 400	-
Electronic Assemblies	38 867	-
Bobuza Trading	3 420	-
Ilanga Newspaper	3 962	-
Media 24	5 961	-
NBBPS Multipurpose Primary Co-op	4 270	-
Sanyera Trading	550	-
Trans-atlantic Equipment	25 368	-
Northmerch	1 536	-
NMR Hardware	7 410	-
Mooi River District Taxi Association	3 500	-
ARB Electrical Wholesalers	1 991	-
NMR Hardware	12 483	-
My Space	2 500	-
Africom	1 484	-
Sovereign Safe and Locksmith	2 603	-
Northmec	895	-
NMR Hardware	5 928	-
NMR Hardware	7 969	-
Freeway Motors	615	-
Mockler Travel Travel	11 452	-
Rithabile Decors	17 000	-
NBBPS Multi Purpose	2 500	-
NMR Hardware	11 953	-
Ridgeback Trading	6 000	-
City Printing Works	3 667	-
Paarl Media	4 672	-
NMR Hardware	2 508	-

# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>46. Deviation from supply chain management regulations (continued)</b>		
Sanyera Trading	178 145	-
Firearm Services	18 900	-
Sarupens Trabsport	15 686	-
Paarl Media	6 273	-
Media 24	9 041	-
Media 24	33 903	-
Need a tool	17 209	-
Northmerch	2 923	-
Mooi River District Taxi Association	6 000	-
NMR Hardware	17 881	-
Media 24	3 651	-
Paarl Media	4 549	-
Unirvesal Print Group	13 349	-
Astra Travel	14 784	-
NMR Hardware	15 840	-
NMR Hardware	11 115	-
NMR Hardware	13 897	-
Media 24	14 095	-
	<b>771 459</b>	<b>-</b>

## 47. Risk management

### Maximum credit risk exposure

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the municipality. The utilisation of credit limits is regularly monitored.

Financial assets exposed to credit risk at year end are noted under the respective financial assets - investments, trade and other receivables and the cash and cash equivalents notes.

These balances represent the maximum exposure to credit risk.

Cash and cash equivalents	2 158 882	2 687 362
Financial assets - investments	2 916 606	9 487 572
Consumer debtors	31 515 127	28 639 458
<b>Maximum credit exposure</b>	<b>36 590 615</b>	<b>40 814 392</b>

### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality financial liabilities into amounts due within the 12 months after:

Trade payables	24 513 204	13 378 858
Finance lease obligation	512 087	410 803
Short term portion of long term liabilities	70 202	137 426
	<b>25 095 493</b>	<b>13 927 087</b>

# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 47. Risk management (continued)

#### Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

At year end, financial instruments exposed to interest rate risk were as follows:

Financial Assets - Investments

Financial Lease Obligation

Annuity Loan

- Call deposits
- Notice deposits
- Long-term debtors

This note presents the municipality's exposure to this risk. Quantitative disclosures of the amounts are disclosed throughout the financial statements.

Effect on profit before tax

### 48. Electricity losses

#### Electricity units (kWh) lost in distribution

Electricity units (kWh) purchased from Eskom	-	62 234 443
Electricity units (kWh) sold from Eskom	-	(46 976 912)
	-	<b>15 257 531</b>

Electricity losses for the financial year is 25% (2014: 18%). The Rand value of the electricity losses for the current financial year is R12 299 097 (2014: R6,874,000).

These losses are attributable to electricity line losses within the electricity network infrastructure.

### 49. Councillor arrears on consumer accounts

No current councillor has arrears on his/her services account.

### 50. Consumer debtors disclosure

#### Less: Allowance for impairment

Consumer debtors - Other (Specified)	(497 477)	-
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#### Net balance

Consumer debtors - Other (Specified)	(497 477)	-
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#### Other (specify)

Undefined Difference	(497 477)	-
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### 51. Other financial assets

### 52. Financial instruments disclosure

### 53. Disposal of: a significant asset(s) /or a group of assets and liabilities /or a component of the entity

Management has taken a decision to dispose of a significant asset /or a group of assets and liabilities /or a component of the entity.



# MPOFANA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
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### 54. Acquisitions with a view to its subsequent disposal

### 55. Other financial liabilities

### 56. Decommissioning, restoration and environmental rehabilitation funds

The municipality is a contributor to the following fund(s): Fund 1 and Fund 2.

#### Fund 1

The nature of the municipality's interest in the fund is as follows:

[state nature]

Restrictions on access to assets in the fund are as follows:

[state restrictions]

#### Fund 2

The nature of the municipality's interest in the fund is as follows:

[state nature]

Restrictions on access to assets in the fund are as follows:

[state nature]

### 57. Budget differences